

VZCZCXRO1214
RR RUEHAO RUEHCD RUEHGA RUEHGD RUEHHA RUEHHC RUEHMC RUEHNG RUEHNL
RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHCV #2207/01 3241434
ZNY CCCCC ZZH
R 201434Z NOV 07
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 0128
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RUEHBJ/AMEMBASSY BEIJING 0351
RHEBAAA/DEPT OF ENERGY
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 002207

SIPDIS

SIPDIS

ENERGY FOR ALOCKWOOD AND CDAY, NSC FOR JSHRIER

E.O. 12958: DECL: 11/08/2017

TAGS: [ECON](#) [EPET](#) [CH](#) [VE](#)

SUBJECT: CHINA LOANS VENEZUELA USD FOUR BILLION TO BE
REPAID IN OIL

REF: A. CARACAS 448

[1](#)B. CARACAS 2056

Classified By: ECONOMIC COUNSELOR ANDREW BOWEN, FOR REASON 1.4 (D)

[1](#)1. (U) SUMMARY: BRV President Hugo Chavez and PRC Vice Minister of the National Committee and Reform Zhang Xiaoqiang presided over a televised signing ceremony for energy, financial and technology agreements on Tuesday, November 6, 2007 at the presidential palace. The main agreement established a USD six billion joint fund for Venezuelan economic development and cooperative relations. The BRV will contribute USD two billion through the National Development Fund (FONDEN) and the China Development Bank (CDB) will provide the BRV a USD four billion loan. A fuel oil supply contract will be used to repay the loan. END SUMMARY.

INCREASING CHINESE PRESENCE IN VENEZUELA

[1](#)2. (C) Participants at the USD six billion joint fund signing ceremony included representatives from the Social Development Bank (Bandes), PDVSA, the Ministry of Popular Power for Finance, FONDEN, and, on the Chinese side, the CDB and the China National United Oil Corporation (CNUOC). During the ceremony, President Chavez indicated the joint fund will be reviewed and replenished every three years and, that in the future it could grow to USD 10 billion with the BRV contributing an additional USD four billion and the CDB USD six billion. Vice Minister Xioqiang noted that the USD four billion loan was the largest the PRC had ever made in Latin America. The CDB loaned the entire amount to Bandes. Rafael Ramirez, BRV Minister of Popular Power for Energy and Petroleum, and President of PDVSA signed a contract to supply fuel oil to China. According to local analysts, PDVSA has been instructed to pay its royalties in kind (fuel oil) to the BRV which in turn will use the oil to repay the Bandes loan. Local analysts added that it was not clear at this time who would pay the transportation costs of shipping the fuel oil to China. Bandes also signed an agreement with the CDB to create a joint technical office with USD 4.5 million of capital to oversee the development of the joint fund's objectives.

[1](#)3. (C) China National Petroleum Corporation (CNPC) executives told Economic Counselor and Petroleum Attache on November 15 that PDVSA would be shipping fuel oil in order to cover the loan. The executives stated Venezuela is currently shipping 300,000 barrels per day of oil, mainly fuel oil to

China. They added that they were not sure what China would do with so much fuel oil. During the ceremony Chavez claimed that Venezuela now supplied the PRC with 350 thousand barrels of oil per day and that the BRV has committed to increase the supply to 500 thousand barrels per day by 2008, and one million barrels per day by 2010 or 2011. Industry sources report current Venezuelan exports average 158 thousand barrels of oil per day but the number continues to grow. Local analysts believe that if exports to China increase to 500 thousand barrels per day some of this volume would necessarily come from the current US share.

14. (U) Minister Ramirez also signed several other agreements including a memorandum of understanding between PDVSA and CNUOC to "expand cooperation in the energy sector of both countries" and an agreement with Sinopec a Chinese oil company to conduct studies of the Junin Block #8 of crude oil fields in the Faja heavy oil belt. This is the second project signed between PDVSA and Sinopec, which also gained minority participation (8 percent) in the Petrolera Paria Joint Company. PDV Maritime also formed an "alliance" with Petrochina International with the goal of creating a joint company to transport oil and oil derivatives to Asia.

15. (U) Telecommunications of Venezuela S. A. (a joint company created by presidential decree October 3, 2007) and the Chinese telecommunications company, ZTE, signed a charter to manufacture mobile phones and communications equipment in Venezuela. Telecom Venezuela and Huawei, another Chinese telecommunications company, signed a charter for a joint company to build telecommunications equipment in Venezuela for export to Latin America. (COMMENT: It appears Telecommunications of Venezuela S. A. and Telecom Venezuela are two separate companies. END COMMENT.) The Corporation

CARACAS 00002207 002 OF 002

of Intermediate Industries of Venezuela also signed an agreement with the Haier Electrical Appliances Corporation LTD of the PRC to create a joint domestic appliance company in Venezuela.

16. (C) COMMENT: Economic ties continue to grow between China and Venezuela. China appears committed to obtaining a steady supply of oil from Venezuela and is willing to commit the capital and follow-up necessary to finalize agreements. This was underscored by the presence of the high-level Chinese delegation at the ceremony and the fact that the agreements were signed in Caracas. Venezuela has made other recent similar deals. During an October courtesy call on the US Ambassador, Japan's recently arrived Ambassador to Venezuela stated that the Japanese Bank of International Cooperation loaned Venezuela USD 3.5 billion to be repaid with oil over a 15 year period (Reftel A). END COMMENT.

DUDDY